

CITY OF MILLVILLE
FINANCIAL STATEMENTS

June 30, 2005

CITY OF MILLVILLE
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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and City Council
City of Millville
Millville, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Millville, Utah (the City), as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, and each major fund of the City of Millville, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 29, 2005, on our consideration of the internal controls over financial reporting and on our tests of its compliance with laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 10 and on pages 43 and 44 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental budget to actual statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole. The supplemental water, sewer, and insurance information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.



JONES SIMKINS, P.C.
September 29, 2005

CITY OF MILLVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005

This document is a narrative overview and analysis of the financial activities of Millville City (the City) for the fiscal year ending June 30, 2005. The City's management encourages readers to consider the information presented here in conjunction with the financial statements which follow this section. To help the reader with navigation of this report, the City's activities are classified in the following manner: governmental activities refers to general administration, parks and recreation, highways and public improvements, planning, public safety, etc., while business-type activities refers to operations of the City's water and sewer activities.

FINANCIAL HIGHLIGHTS

The total net assets of the City increased by \$578,918 totaling \$3,195,296. The governmental net assets increased by \$486,820 and the business-type net assets increased by \$92,098. The majority of these increases stems from developer donations of capital assets. Beginning of the year balances for certain capital assets were restated. See Note 2 to the financial statements for more information.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes other supplementary information in addition to the basic financial statements.

Government-wide financial statements - The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. However, you would also need to consider other non-financial factors.

The statement of activities presents information showing how the City's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus all of the current year's revenues and expenses are taken in to account regardless of when cash is received or paid.

CITY OF MILLVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005

Both of the government-wide financial statements distinguish between functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general

government and administration, public safety, development services, and cultural and recreational programs. The business-type activities of the City include water and sewer. The government-wide financial statements can be found on pages 13 to 14 of this report.

Fund financial statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories—governmental and proprietary funds.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains two governmental funds. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General and Capital Projects funds, which are considered to be major funds. The basic governmental funds financial statements can be found on pages 15 to 18.

Proprietary Fund – The City maintains one proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water and sewer activities.

CITY OF MILLVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005

Proprietary funds provide the same type of information as the government-wide financial statements. The proprietary fund financial statements provide detailed activities of the water and sewer fund. The basic proprietary fund financial statements can be found on pages 19 to 22 of this report.

Fiduciary funds – These funds are used to account for resources held for the benefit of parties outside the government. The City currently has no fiduciary funds.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23 to 41.

GOVERNMENTAL –WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities and fund equity by \$3,195,296 as of June 30, 2005.

The largest portion of the City's net assets reflects its investments in capital assets (e.g., land, infrastructure, intangible assets) less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide current services to citizens and is planning for future services with regard to the sewer system. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

MILLVILLE CITY'S NET ASSETS

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Current and other assets	\$ 702,695	571,993	433,324	400,173	1,136,019	972,166
Capital assets	<u>1,543,996</u>	<u>1,238,821</u>	<u>2,457,700</u>	<u>2,354,670</u>	<u>4,001,696</u>	<u>3,593,491</u>
Total assets	<u>2,246,691</u>	<u>1,810,814</u>	<u>2,891,024</u>	<u>2,754,843</u>	<u>5,137,715</u>	<u>4,565,657</u>
Liabilities	58,312	75,255	123,886	111,704	182,198	186,959
Non-current liabilities	<u>-</u>	<u>34,000</u>	<u>1,760,221</u>	<u>1,728,320</u>	<u>1,760,221</u>	<u>1,762,320</u>
Total liabilities	<u>58,312</u>	<u>109,255</u>	<u>1,884,107</u>	<u>1,840,024</u>	<u>1,942,419</u>	<u>1,949,279</u>
Net assets:						
Investments in capital assets, net of related debt	1,543,996	1,238,821	649,964	591,750	2,170,560	1,830,571
Restricted	311,960	251,272	19,200	19,200	331,160	270,472
Unrestricted	<u>332,423</u>	<u>211,466</u>	<u>337,753</u>	<u>303,869</u>	<u>693,576</u>	<u>1,010,839</u>
Total net assets	\$ <u>2,188,379</u>	<u>1,701,559</u>	<u>1,006,917</u>	<u>914,819</u>	<u>3,195,296</u>	<u>2,616,378</u>

Restricted net assets and reserved balances represent monies required to be maintained to satisfy third party agreements or legal requirements. Unrestricted net assets may be used to meet the government's on-going obligations to citizens and creditors.

CITY OF MILLVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005

As of June 30, 2005, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Analysis of the City's Operations – Overall, the City had an increase in net assets of \$578,918, and this change will be analyzed below.

Governmental Activities: Governmental activities increased the net assets by \$486,820 or 84% of the total growth in net assets. The majority of this increase included land acquired for a park, completion of the salt-sand storage building, remodeling of the city office, and roads and related improvements donated by developers. Approximately 55% of the increase resulted from developer donated assets.

The governmental activities non-current liabilities decreased by \$34,000. This decrease is related to the payment of a long-term debt with the State of Utah Water Quality Planning Board for a Waste Water Planning Loan.

Capital grants and contributions result mainly from developer donations and fluctuate from year to year. Additionally, the City received a \$50,000 RAPZ tax grant from Cache County and these funds were used to purchase land to develop a new park.

Sales and use tax revenues increased by approximately \$15,000 or 9% because of increased sales tax collections received locally and from the State of Utah.

Miscellaneous revenues increased by a one-time payment of \$20,000 in settlement of a dispute with a developer.

Business-type Activities: Net assets from business-type activities increased approximately \$92,000 or 10%. Approximately \$74,000 or 80% of the increase resulted from developer donated water lines.

To reimburse the general fund for discharging the Waste Water Planning Loan, the Water and Sewer Fund transferred \$34,000 into the General Fund.

The business-type activities non-current liabilities increase was due to a long-term liability the City incurred to pay for its portion of cost overruns on the Nibley City sewer main capacity upgrade it participated in. See Note 8 to the financial statements.

CITY OF MILLVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005

The following table provides a summary of the City's operations for the fiscal year ended June 30, 2005 with comparative totals for the fiscal year ended June 30, 2004.

MILLVILLE CITY CHANGES IN NET ASSETS

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenues						
Program Revenues						
Charges for services	\$ 160,025	137,375	270,394	277,120	430,420	414,495
Operating grants	56,845	76,748	-	-	56,845	76,748
Capital grants and contributions	321,201	391,268	73,925	61,860	395,126	453,128
General Revenues						
Property taxes	50,949	48,721	-	-	50,949	48,721
Sales and use taxes	185,495	170,078	-	-	185,495	170,078
Franchise taxes	5,369	4,431	-	-	5,369	4,431
Other revenues	<u>31,167</u>	<u>8,988</u>	<u>9,059</u>	<u>3,516</u>	<u>65,167</u>	<u>12,504</u>
Total revenues	<u>845,051</u>	<u>837,609</u>	<u>344,320</u>	<u>342,496</u>	<u>1,189,371</u>	<u>1,180,105</u>
Expenses						
General government	85,589	84,370	-	-	85,589	84,370
Public safety	55,225	60,918	-	-	55,225	60,918
Streets and public improvements	179,716	172,331	-	-	179,716	172,321
Parks and recreation	37,701	36,195	-	-	37,701	36,195
Water and sewer	<u>-</u>	<u>-</u>	<u>227,280</u>	<u>218,463</u>	<u>227,281</u>	<u>218,463</u>
Total expenses	<u>358,231</u>	<u>353,814</u>	<u>227,280</u>	<u>218,463</u>	<u>585,512</u>	<u>572,267</u>
Increase in net assets before transfers	<u>486,820</u>	<u>483,795</u>	<u>117,039</u>	<u>124,033</u>	<u>603,859</u>	<u>607,838</u>
Transfers	<u>34,000</u>	<u>-</u>	<u>(34,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase in net assets	<u>520,820</u>	<u>483,795</u>	<u>83,039</u>	<u>124,033</u>	<u>603,859</u>	<u>607,838</u>
Change in net assets	486,820	483,795	92,098	124,033	578,918	607,828
Net assets – beginning (7/01/04)	<u>1,701,559</u>	<u>1,217,764</u>	<u>914,819</u>	<u>790,786</u>	<u>2,616,378</u>	<u>2,008,550</u>
Net assets – ending (6/30/05)	\$ <u>2,188,379</u>	<u>1,701,559</u>	<u>1,006,917</u>	<u>914,819</u>	<u>3,195,296</u>	<u>2,616,378</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental funds – The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental fund balance increased by \$147,645 for the following reasons: (1) the capital projects fund balance increased by approximately \$57,000; (2) the sales tax revenues increased by approximately \$20,000; and (3) approximately \$70,000 in capital expenditures purchases were delayed until the next fiscal year.

CITY OF MILLVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005

Approximately 52%, or \$332,423, of total governmental fund balance constitutes unreserved fund balance. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed for: (1) Class C roads, \$224,187; and (2) park improvements, \$87,773.

Proprietary funds – The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the proprietary fund are \$337,753. Total net assets increased from \$914,819 in 2004 to \$1,006,917, an increase of approximately \$92,000, most of which is due to contributions received from developers.

General Fund Budgetary Highlights – There were revisions made to the original appropriations approved by the City Council. During the year, a transfer to the Capital Projects Fund of \$60,000 was budgeted. Also the City was awarded and budgeted for a \$27,000 sidewalk construction grant. The General Fund's budgeted revenues increased 29% as the result of increased revenue projections for taxes, park impact fees, and a one-time settlement with a developer.

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2005 amounted to \$3,978,296. This investment in capital assets includes land, buildings, equipment, improvements, infrastructure, and construction in progress. The total increase in the City's investment in fixed assets for the current fiscal year was approximately 12% (25% for governmental activities and 22% for business-type activities).

Major capital assets added during the current fiscal year included the following:

- Purchase of land for north park for \$51,690.
- Completion of the salt/sand storage building in the amount of \$26,790.
- Developer donated roads in the amount of \$158,856.
- Developer donated water lines in the amount of \$73,925.
- Developer donated sidewalks in the amount of \$49,504.
- Developer donated land for infrastructure in the amount of \$60,600.
- Additional sewer main installation costs in the amount of \$79,416.

CITY OF MILLVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005

Capital Assets at Year-end
Net of Accumulated Depreciation

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Land	\$ 302,809	190,519	73,252	73,252	376,061	263,771
Infrastructure	975,559	809,328	-	-	975,559	809,328
Buildings and improvements	194,394	125,180	-	-	194,394	125,180
Machinery and equipment	68,039	73,560	-	3,812	68,039	77,372
Intangible assets	-	-	1,040,407	960,991	1,040,407	960,991
Other improvements	-	-	1,320,641	1,291,708	1,320,641	1,291,708
Construction in progress	<u>3,195</u>	<u>40,234</u>	<u>-</u>	<u>-</u>	<u>3,195</u>	<u>40,234</u>
Total	<u>\$1,543,996</u>	<u>1,238,821</u>	<u>2,434,300</u>	<u>2,329,763</u>	<u>3,978,296</u>	<u>3,568,584</u>

Additional information on the City's capital assets can be found in Note 5 on pages 34 to 35 of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had total debt of \$1,807,736. All of this debt is directly related to the business-type activities of our water and sewer fund.

Outstanding Debt at Year End
Bonds and Notes Payable

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
General obligation bonds	\$ -	-	813,000	838,000	813,000	838,000
Water and sewer revenue bonds	-	-	915,320	924,920	915,320	924,920
Waste water loan	-	34,000	-	-	-	34,000
Inter-city loan	-	-	79,416	-	79,416	-
Total	<u>\$ -</u>	<u>34,000</u>	<u>1,807,736</u>	<u>1,762,920</u>	<u>1,807,736</u>	<u>1,796,920</u>

During the fiscal year, the City's total debt increased by \$10,816. The increase was due to the following:

- The City entered into an inter-city loan with Nibley City in payment of cost overruns while installing a sewer main in the amount of \$79,416.
- There were payments made which decreased the general obligation and water and sewer revenue bonds amounting to \$34,600.
- The City paid off the \$34,000 waste water planning loan.

Additional information on the City's long-term debt can be found in Note 8 on pages 36 to 38.

CITY OF MILLVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In the fiscal year 2005-06 budget, general fund revenues and transfers in are budgeted to decrease 20% from the 2004-05 final budget. No transfers will be made from the water fund to the general fund, no developer settlement collections will occur, and fewer houses are expected to be built resulting in lower impact fees collections.

Certified assessed real property valuations increased 10.2% over the preceding year.

The unemployment rate for Cache County (of which the City is a part of) was 3.3% compared with a state unemployment rate of 4.7% and a national rate of 5.3%. Cache County's rate in 2004 was 3.1%. (Source: Utah Department of Workforce Services)

The City Council voted to approve the certified tax rate for property tax at the rate of 0.000853 for fiscal year 2006 which was a decrease from 0.000890 for fiscal year 2005.

The major projects/purchases budgeted for next year include: sidewalk improvements on Main Street between 100 and 400 North on the east side of the road; park excavation with tennis courts, landscaping and sprinklers at the City Office complex; a utility tractor/loader; and a new road on 100 East from 400 North to 450 North.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Millville City Recorder, P. O. Box 308, Millville Utah, 84326-0308.

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Basic Financial Statements

CITY OF MILLVILLE
STATEMENT OF NET ASSETS
June 30, 2005

<u>Assets</u>	Primary Government		
	Governmental Activities	Business-type Activities	Total
Pooled cash and cash equivalents	\$ 600,274	407,744	1,008,018
Taxes receivable	73,200	-	73,200
Accounts receivable, net	14,221	25,580	39,801
Due from other governmental units	15,000	-	15,000
Land	302,809	73,252	376,061
Construction in process	3,195	-	3,195
Intangible assets	-	1,040,407	1,040,407
Buildings	239,506	-	239,506
Furniture, fixtures, and equipment	100,076	22,874	122,950
Other improvements	-	1,721,417	1,721,417
Infrastructure	1,376,582	-	1,376,582
Accumulated depreciation	(478,172)	(423,650)	(901,822)
Deferred bond issuance costs, net	-	23,400	23,400
Total assets	<u>\$ 2,246,691</u>	<u>2,891,024</u>	<u>5,137,715</u>
<u>Liabilities</u>			
Liabilities:			
Accounts payable	\$ 15,339	11,512	26,851
Deposits	-	11,800	11,800
Accrued interest	-	53,059	53,059
Deferred revenue	42,973	-	42,973
Noncurrent liabilities:			
Due within one year	-	47,515	47,515
Due in more than one year	-	1,760,221	1,760,221
Total liabilities	<u>58,312</u>	<u>1,884,107</u>	<u>1,942,419</u>
<u>Net Assets</u>			
Investments in capital assets, net of related debt	1,543,996	649,964	2,193,960
Restricted	311,960	19,200	331,160
Unrestricted	332,423	337,753	670,176
Total net assets	<u>\$ 2,188,379</u>	<u>1,006,917</u>	<u>3,195,296</u>

The accompanying notes are an integral part
of these financial statements.

CITY OF MILLVILLE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental:							
General government	\$ 85,589	19,669	-	-	(65,920)	-	(65,920)
Public safety	55,225	14,936	899	-	(39,390)	-	(39,390)
Streets and public improvements	179,716	75,954	55,946	269,510	221,694	-	221,694
Parks and recreation	37,701	49,466	-	51,691	63,456	-	63,456
Total governmental activities	358,231	160,025	56,845	321,201	179,840	-	179,840
Business-type activities:							
Water and Sewer fund	227,280	270,394	-	73,925	-	117,039	117,039
Total business-type activities	227,280	270,394	-	73,925	-	117,039	117,039
Total primary government	\$ 585,511	430,419	56,845	395,126	179,840	117,039	296,879
General revenues:							
Taxes:							
Sales and use tax					185,495	-	185,495
Property tax					50,949	-	50,949
Other taxes					5,369	-	5,369
Total taxes					241,813	-	241,813
Miscellaneous							
Investment income					20,415	-	20,415
Transfers					10,752	9,059	19,811
					34,000	(34,000)	-
Total general revenues and transfers					306,980	(24,941)	282,039
Change in net assets							
Net assets—beginning, as restated					486,820	92,098	578,918
Net assets—ending					1,701,559	914,819	2,616,378
					\$ 2,188,379	1,006,917	3,195,296

The accompanying notes are an integral part
of these financial statements.

CITY OF MILLVILLE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

<u>Assets</u>	<u>General</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Pooled cash and cash equivalents	\$ 424,784	175,490	600,274
Taxes receivable	73,200	-	73,200
Accounts receivable, net	14,221	-	14,221
Due from other governmental units	15,000	-	15,000
Total assets	<u>\$ 527,205</u>	<u>175,490</u>	<u>702,695</u>
<u>Liabilities and Fund Equities</u>			
Liabilities:			
Accounts payable	\$ 15,339	-	15,339
Deferred revenue	42,973	-	42,973
Total liabilities	<u>58,312</u>	<u>-</u>	<u>58,312</u>
Fund equity:			
Fund balances			
Reserved	311,960	-	311,960
Unreserved - undesignated	156,933	175,490	332,423
Total fund equity	<u>468,893</u>	<u>175,490</u>	<u>644,383</u>
Total liabilities and fund equity	<u>\$ 527,205</u>	<u>175,490</u>	<u>702,695</u>

The accompanying notes are an integral part
of these financial statements.

CITY OF MILLVILLE
RECONCILIATION OF THE BALANCE SHEET
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
For the Year Ended June 30, 2005

Total fund balances for governmental funds \$ 644,383

Amounts reported for governmental activities in the Statement of Net
Assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the funds.

Land	\$ 302,809	
Infrastructure	1,376,582	
Buildings and improvements	239,506	
Machinery and equipment	100,076	
Construction in progress	3,195	
Accumulated depreciation	<u>(478,172)</u>	<u>1,543,996</u>

Net assets of governmental activities \$ 2,188,379

The accompanying notes are an integral part
of these financial statements.

CITY OF MILLVILLE
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2005

	<u>General</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Revenues:			
Taxes	\$ 240,763	-	240,763
Licenses and permits	14,122	-	14,122
Intergovernmental	112,030	-	112,030
Charges for services	134,873	-	134,873
Fines and forfeitures	4,047	-	4,047
Miscellaneous revenues	31,720	2,946	34,666
Total revenues	<u>537,555</u>	<u>2,946</u>	<u>540,501</u>
Expenditures:			
General government	82,652	6,000	88,652
Public safety	55,224	-	55,224
Streets and public improvements	198,572	-	198,572
Parks and recreation	84,408	-	84,408
Total expenditures	<u>420,856</u>	<u>6,000</u>	<u>426,856</u>
Excess (deficiency) of revenues over expenditures	<u>116,699</u>	<u>(3,054)</u>	<u>113,645</u>
Other financing sources (uses):			
Transfer in from water and sewer fund	34,000	-	34,000
Transfer in from the general fund	-	60,000	60,000
Transfer out to the capital projects fund	(60,000)	-	(60,000)
Total other financing sources (uses)	<u>(26,000)</u>	<u>60,000</u>	<u>34,000</u>
Net change in fund balance	<u>90,699</u>	<u>56,946</u>	<u>147,645</u>
Fund balance - beginning of year	<u>378,194</u>	<u>118,544</u>	<u>496,738</u>
Fund balance - end of year	<u>\$ 468,893</u>	<u>175,490</u>	<u>644,383</u>

The accompanying notes are an integral part
of these financial statements.

CITY OF MILLVILLE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

Net change in fund balance - Total governmental funds	\$ 147,645
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays of \$87,125 and developer donations of \$269,510 exceeded depreciation expense of \$51,460 in the current year.	305,175
Repayment of loan principal is an expenditure in the governmental funds, but reduces liabilities in the Statement of Net Assets.	<u>34,000</u>
Change in net assets of governmental activities	\$ <u><u>486,820</u></u>

The accompanying notes are an integral part
of these financial statements.

CITY OF MILLVILLE
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2005

<u>Assets</u>	<u>Water and Sewer Fund</u>	<u>Total Business- Type Activities</u>
Pooled cash and cash equivalents	\$ 407,744	407,744
Accounts receivable, net	25,580	25,580
Land	73,252	73,252
Furniture, fixtures and equipment	22,874	22,874
Other improvements	1,721,417	1,721,417
Intangible assets	1,040,407	1,040,407
Accumulated depreciation	(423,650)	(423,650)
Deferred charges, net	23,400	23,400
Total assets	<u>\$ 2,891,024</u>	<u>2,891,024</u>
 <u>Liabilities</u>		
Liabilities:		
Accounts payable	\$ 11,512	11,512
Accrued interest	53,059	53,059
Deposits	11,800	11,800
Noncurrent liabilities:		
Due within one year	47,515	47,515
Due in more than one year	1,760,221	1,760,221
Total liabilities	<u>1,884,107</u>	<u>1,884,107</u>
 <u>Net Assets</u>		
Invested in capital assets, net of related debt	649,964	649,964
Restricted	19,200	19,200
Unrestricted	337,753	337,753
Total net assets	<u>\$ 1,006,917</u>	<u>1,006,917</u>

The accompanying notes are an integral part
of these financial statements.

CITY OF MILLVILLE
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS -
PROPRIETARY FUND
For The Year Ended June 30, 2005

	<u>Water and Sewer Fund</u>	<u>Total Business- Type Activities</u>
Operating revenues:		
Services	\$ 169,211	169,211
Miscellaneous	13,683	13,683
Total operating revenues	<u>182,894</u>	<u>182,894</u>
Operating expenses:		
Salaries and benefits	72,552	72,552
Current expenses	66,784	66,784
Depreciation and amortization	50,311	50,311
Total operating expenses	<u>189,647</u>	<u>189,647</u>
Operating loss	(6,753)	(6,753)
Non-operating revenues (expenses):		
Impact fees	69,000	69,000
Interest income	9,059	9,059
Interest expense	(37,633)	(37,633)
Fees in lieu of water shares	18,500	18,500
Total non-operating revenues (expenses)	<u>58,926</u>	<u>58,926</u>
Income before contributions and transfers	52,173	52,173
Capital contributions	73,925	73,925
Transfer out	(34,000)	(34,000)
Change in net assets	92,098	92,098
Net assets - beginning of year, as restated	<u>914,819</u>	<u>914,819</u>
Net assets - end of year	<u>\$ 1,006,917</u>	<u>1,006,917</u>

The accompanying notes are an integral part
of these financial statements.

CITY OF MILLVILLE
STATEMENT OF CASH FLOWS -
PROPRIETARY FUND
For The Year Ended June 30, 2005

	<u>Water and Sewer Fund</u>	<u>Total Business- Type Activities</u>
<u>Cash flows from operating activities:</u>		
Receipts from customers and users	\$ 184,879	184,879
Payments to suppliers	(74,820)	(74,820)
Payments to employees	(72,354)	(72,354)
Net cash provided by operating activities	<u>37,705</u>	<u>37,705</u>
<u>Cash flows from non-capital financing activities</u>		
Impact fees	69,000	69,000
Fees in lieu of water shares	18,500	18,500
Transfer to other fund	(34,000)	(34,000)
Net cash provided by non-capital financing activities	<u>53,500</u>	<u>53,500</u>
<u>Cash flows from capital and related financing activities:</u>		
Principal payments on bonds	(34,600)	(34,600)
Interest payments on bonds	(30,528)	(30,528)
Net cash used in capital and related financing activities	<u>(65,128)</u>	<u>(65,128)</u>
<u>Cash flows from investing activities:</u>		
Interest received	9,059	9,059
Net cash provided by investing activities	<u>9,059</u>	<u>9,059</u>
Net increase in cash and cash equivalents	35,136	35,136
Cash and cash equivalents at beginning of year	<u>372,608</u>	<u>372,608</u>
Cash and cash equivalents at end of year	<u>\$ 407,744</u>	<u>407,744</u>
 Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (6,753)	(6,753)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	50,311	50,311
Change in assets and liabilities:		
Decrease in accounts receivable	1,985	1,985
(Decrease) in accounts payable	(6,963)	(6,963)
(Decrease) in deposits	(875)	(875)
Total adjustments	<u>44,458</u>	<u>44,458</u>
Net cash provided by operating activities	<u>\$ 37,705</u>	<u>37,705</u>

The accompanying notes are an integral part
of these financial statements.

CITY OF MILLVILLE
STATEMENT OF CASH FLOWS -
PROPRIETARY FUND
For The Year Ended June 30, 2005

	<u>Water and Sewer Fund</u>	<u>Total Business- Type Activities</u>
<u>Supplemental disclosure of non-cash transactions:</u>		
Note payable issued	\$ 79,416	79,416
Purchase of intangible asset	(79,416)	(79,416)
Total	\$ -	-
Other improvements acquired	\$ 73,925	73,925
Developer donation revenue	(73,925)	(73,925)
Total	\$ -	-

The accompanying notes are an integral part
of these financial statements.

CITY OF MILLVILLE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1 - Summary of Significant Accounting Policies

The City of Millville, Utah (the City), operates as an incorporated governmental entity within the State of Utah. The City operates under the Council-Mayor form of government and provides the following services: public safety (police and fire), highway and streets, sanitation, recreation, public improvements, planning and zoning, and general administrative services. In addition, the City owns and operates a water and sewer system.

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

Financial Reporting Entity

The City's basic financial statements include the accounts of all City operations. The accounting policies of the City conform to generally accepted accounting principles.

The City has no oversight responsibility for any other governmental entity since no other entities are considered to be controlled by, or dependent on the City. Control or dependence is determined on the basis of budget adoption, taxing authority, funding, and appointment of the respective governing board. The City participates in the Cache Valley Transit District (CVTD) and the Cache Metropolitan Planning Organization (CMPO), which are separate legal entities which are not controlled or dependent upon the City. However, the City has imposed a $\frac{1}{4}$ of 1% sales tax to fund the CVTD. The Utah State Auditor's Office has determined that the sales tax is in effect collected by the CVTD and that the related revenue and expenditures should be excluded from these financial statements.

Basic Financial Statements - Government-Wide Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The City's public safety (police and fire), highway and streets, sanitation, recreation, public improvements, planning and zoning, and general administrative services are classified as governmental activities. The City's water and sewer services are classified as business-type activities.

CITY OF MILLVILLE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1 - Summary of Significant Accounting Policies (continued)

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are (a) presented on a consolidated basis by column, and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

Governmental activities are usually financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities (general, public safety, etc.). The functions are also supported by general government revenues (property taxes, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating grants, and capital grants. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenue (property or sales taxes, intergovernmental revenues, interest income, etc.).

The City does not allocate indirect costs.

These government-wide statements focus more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

Basic Financial Statements – Fund Statements

The City's accounting system is organized on a fund basis. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the government establishes for accountability purposes in accordance with statutes, laws, regulations, restrictions, or specific purposes.

Separate financial statements are provided for governmental funds and proprietary funds. The emphasis of fund financial statements is on major individual funds, as defined by GASB Statement No. 34, with each displayed as a separate column.

CITY OF MILLVILLE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1 - Summary of Significant Accounting Policies (continued)

All remaining governmental funds are aggregated and reported as non-major funds.

The following fund types are used by the City.

Governmental Funds

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City, both of which are considered to be major funds.

- The **General Fund** is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
- The **Capital Projects Fund** is used to account for financial resources to be used for the acquisition of capital facilities and equipment by the City.

Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the City. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition, such as investment earnings, are reported as non-operating.

- **Enterprise funds** are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is (a) financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

The **Water and Sewer Fund** operates as an enterprise fund and accounts for the water and sewer operations of the City and is considered to be a major fund.

CITY OF MILLVILLE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1 - Summary of Significant Accounting Policies (continued)

Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual

Both governmental and business-type activities in the government-wide financial statements and the proprietary fund financial statements are presented on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. However, debt service and compensated absences expenditures are recorded only when payment is due.

Financial Statement Amounts

Cash and cash equivalents

For the purpose of the Statement of Net Assets, the term "cash and cash equivalents" includes all demand deposit accounts, savings accounts, or other short-term, highly liquid investments. For the purposes of the Statement of Cash Flows, the enterprise funds consider all highly liquid investments (including restricted assets) with original maturities of three months or less to be cash equivalents.

Accounts Receivable and Due From Other Governments

Receivables consist of all revenues earned at year-end but received after year-end. Allowances for uncollectible accounts are based upon historical trends. Receivable balances for the governmental activities include sales taxes, franchise taxes, property taxes, garbage collection fees, and other fees.

CITY OF MILLVILLE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1 - Summary of Significant Accounting Policies (continued)

Business-type activities report receivables for utility service fees.

Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical costs. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings	30 years
Water improvements	30 to 40 years
Equipment	3 to 15 years
Infrastructure	40 to 80 years

In the governmental fund financial statements, the acquisition or construction of capital assets is accounted for as capital outlay expenditures.

Intangible assets with an indefinite life are not amortized until a definite life is established. Intangible assets are reviewed annually for impairment.

Capitalized Interest

The City capitalizes net interest costs as part of the cost of construction of proprietary capital projects when material.

Deferred Revenues

In the government-wide statements and the proprietary fund statements, deferred revenue is recognized when cash or other assets are received or recognized prior to being earned. In the governmental fund statements, deferred revenue is recorded when revenue is either unearned or unavailable.

Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

CITY OF MILLVILLE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1 - Summary of Significant Accounting Policies (continued)

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide financial statements. The long-term debt consists of bonds payable and notes payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary fund long-term debt is the same in the fund statements as it is in the government-wide statements.

Equity Classifications

Equity in the government-wide financial statements is classified as net assets and displayed in three components:

- Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction or improvement of these assets.
- Restricted net assets – Consists of net assets with constraints placed on their use whether by 1) external groups such as creditors, grantors or laws and regulations of other governments; or 2) law through constitutional provisions or enabling legislation.
- Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Governmental fund equity is classified as fund balance in the fund financial statements. Fund balance is further classified as reserved and unreserved. Proprietary fund equity is classified the same as in the government-wide financial statements.

Revenues

Property taxes, franchise taxes, licenses, fees-in-lieu, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Property taxes and fees-in-lieu associated with future periods are deferred. All other revenue items are considered to be measurable and available only when the City receives cash. Grants are usually reimbursable grants and are thus recognized as revenue at the time the expenditures are made.

Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as non-operating revenue based on GASB Statement No. 33. In addition, other revenues that do not result from providing services are reported as non-operating revenues.

CITY OF MILLVILLE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1 - Summary of Significant Accounting Policies (continued)

Expenses/Expenditures

When an expense/expenditure is incurred for purposes for which both restricted and unrestricted resources are available, it is the City's general policy to use qualifying restricted resources first.

For proprietary fund financial statements, operating expenses are those that result from providing services to customers.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual amounts could differ from these estimates.

Property Tax Calendar

Cache County assesses all taxable property other than centrally assessed property, which is assessed through the State, by May 22 of each year. The City must adopt a final tax rate prior to June 22, which is then submitted to the State for approval. Property taxes are due on November 30. Delinquent taxes are subject to a penalty of 2% or \$10.00, whichever is greater. After January 16 of the following year, delinquent taxes and penalties bear interest at 6% above the federal discount rate from January 1 until paid.

Note 2 – Accounting Restatements

The City discovered in the course of preparing fixed asset balances that certain fixed assets had not been included in the June 30, 2004 balance. An adjustment of the prior year financial statements has been made to reflect this correction as summarized below:

Governmental Funds:

Net assets at June 30, 2004, as previously reported	\$ 1,418,793
Adjustments:	
Add land and infrastructure, net of accumulated depreciation	<u>282,766</u>
Net assets on June 30, 2004 – as restated	\$ <u>1,701,559</u>

CITY OF MILLVILLE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 2 – Accounting Restatements (continued)

Enterprise Funds:

Net assets at June 30, 2004, as previously reported \$ 855,021

Adjustments:

Add capital assets, net of accumulated depreciation 59,798

Net assets on June 30, 2004 – as restated \$ 914,819

Note 3 – Deposits and Investments

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the State, and review the rules adopted by the State of Utah Money Management Act that relate to the deposit and investment of public funds.

The City follows the requirements of the Utah Money Management Act (Utah Code, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

At June 30, 2005, the City's deposits and investments consisted of the following:

<u>Financial Statement Description</u>	<u>Deposits</u>	<u>Investments</u>	<u>Cash</u>	<u>Total</u>
Pooled cash and cash equivalents:				
Cash-on-hand	\$ -	-	20	20
Demand deposits	63,045	-	-	63,045
Public Treasurer's Investment Pool	<u>-</u>	<u>944,953</u>	<u>-</u>	<u>944,953</u>
Total pooled cash and cash equivalents	<u>63,045</u>	<u>944,953</u>	<u>20</u>	<u>1,008,018</u>
Total all deposits and investments	\$ <u>63,045</u>	<u>944,953</u>	<u>20</u>	<u>1,008,018</u>

CITY OF MILLVILLE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 3 – Deposits and Investments (continued)

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned. The City does not have a formal deposit policy for custodial credit risk. As of June 30, 2005, \$0 of the City's bank balances of \$65,264 was uninsured and uncollateralized.

Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the City and the conditions for making investments transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with the issuers of investment securities.

Statutes authorize the City to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund.

The Utah State Treasurer's Office operates the Public Treasurers' Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, Utah Code Annotated, 1953, as amended. The Act established the Money Management Council, which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionately in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF, are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

CITY OF MILLVILLE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 3 – Deposits and Investments (continued)

As of June 30, 2005, all investments held by the City are in the PTIF, which has a maturity of less than 1 year.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all City investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding 2 years.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's policy for reducing exposure to credit risk is to comply with the State's Money Management Act as previously discussed. At June 30, 2005, all investments held by the City are in the PTIF; which is unrated.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City's policy for reducing this risk is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar amount held in the portfolio.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's policy for custodial risk is to use the PTIF whenever possible. As of June 30, 2005, all of the City's investments were in the PTIF.

CITY OF MILLVILLE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 4 – Receivables and Due From Other Governments

The City has taxes receivable, accounts receivable, and due from other governments as of June 30, 2005, as follows:

General Fund:

Taxes:

Property taxes	\$ 45,000
Sales tax	27,000
Franchise taxes	<u>1,200</u>

Total	\$ <u>73,200</u>
-------	------------------

Accounts:

Garbage	\$ 12,434
911 fees	<u>1,787</u>

Total	\$ <u>14,221</u>
-------	------------------

Due from other government units:

Class "C" Roads – State of Utah	\$ <u>15,000</u>
---------------------------------	------------------

Water and Sewer Fund:

Accounts:

Services and fees	\$ 26,580
Less allowance for doubtful accounts	<u>(1,000)</u>

Total	\$ <u>25,580</u>
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CITY OF MILLVILLE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 5 - Capital Assets

Capital asset changes occurring for the year ended June 30, 2005, are as follows:

	(As Restated) July 1, <u>2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	June 30, <u>2005</u>
<u>Governmental activities:</u>					
Capital assets not being depreciated:					
Land	\$ 190,519	112,290	-	-	302,809
Construction in process	<u>40,234</u>	<u>3,195</u>	<u>-</u>	<u>(40,234)</u>	<u>3,195</u>
Total capital assets not being depreciated	<u>230,753</u>	<u>115,485</u>	<u>-</u>	<u>(40,234)</u>	<u>306,004</u>
Capital assets being depreciated:					
Buildings	166,482	32,790	-	40,234	239,506
Furniture, fixtures and equipment	100,076	-	-	-	100,076
Infrastructure	<u>1,168,222</u>	<u>208,360</u>	<u>-</u>	<u>-</u>	<u>1,376,582</u>
Total capital assets being depreciated	<u>1,434,780</u>	<u>241,150</u>	<u>-</u>	<u>40,234</u>	<u>1,716,164</u>
Accumulated depreciation for:					
Buildings	(41,302)	(3,810)	-	-	(45,112)
Furniture, fixtures and equipment	(26,516)	(5,521)	-	-	(32,037)
Infrastructure	<u>(358,894)</u>	<u>(42,129)</u>	<u>-</u>	<u>-</u>	<u>(401,023)</u>
Total accumulated depreciation	<u>(426,712)</u>	<u>(51,460)</u>	<u>-</u>	<u>-</u>	<u>(478,172)</u>
Total governmental activities capital assets, net	\$ <u>1,238,821</u>	<u>305,175</u>	<u>-</u>	<u>-</u>	<u>1,543,996</u>

Depreciation expense was charged to functions of the City as follows:

General government	\$ 2,937
Streets and public improvements	45,128
Parks and recreation	<u>3,395</u>
Total depreciation expense	\$ <u>51,460</u>

CITY OF MILLVILLE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 5 - Capital Assets (continued)

	(As Restated)				
	July 1, 2004	Additions	Deletions	Transfers	June 30, 2005
<u>Business-type activities:</u>					
Capital assets not being depreciated:					
Land	\$ 73,252	-	-	-	73,252
Intangible assets	<u>960,991</u>	<u>79,416</u>	<u>-</u>	<u>-</u>	<u>1,040,407</u>
Total capital assets not being depreciated	<u>1,034,243</u>	<u>79,416</u>	<u>-</u>	<u>-</u>	<u>1,113,659</u>
Capital assets being depreciated:					
Equipment	22,874	-	-	-	22,874
Other improvements	<u>1,647,492</u>	<u>73,925</u>	<u>-</u>	<u>-</u>	<u>1,721,417</u>
Total capital assets being depreciated	<u>1,670,366</u>	<u>73,925</u>	<u>-</u>	<u>-</u>	<u>1,744,291</u>
Accumulated depreciation for:					
Equipment	(19,062)	(3,812)	-	-	(22,874)
Other improvements	<u>(355,784)</u>	<u>(44,992)</u>	<u>-</u>	<u>-</u>	<u>(400,776)</u>
Total accumulated depreciation	<u>(374,846)</u>	<u>(48,804)</u>	<u>-</u>	<u>-</u>	<u>(423,650)</u>
Total capital assets being depreciated, net	<u>1,295,520</u>	<u>25,121</u>	<u>-</u>	<u>-</u>	<u>1,320,641</u>
Total business-type activities capital assets, net	\$ <u>2,329,763</u>	<u>104,537</u>	<u>-</u>	<u>-</u>	<u>2,434,300</u>

Note 6 - Refundable Water Deposits

The Water and Sewer Fund requires deposits for all new water connections. The deposit is refunded upon termination of service if no balance is owed on the customer account or after two years of current payments, whichever comes first. If an outstanding balance exists at termination, the deposit is first applied to the outstanding balance with any excess refunded. A total of the detailed list of deposits is carried as a current liability on the City's records.

CITY OF MILLVILLE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 7 - Interfund Transfers

During the year, the City made the following interfund transfers:

<u>Purpose</u>	<u>Amount</u>	<u>Transfer in</u>	<u>Transfer out</u>
Debt payment	\$ 34,000	General	Water & Sewer
Future capital outlays	\$ 60,000	Capital Projects	General

Note 8 - Long-Term Debt

Business-Type Activities Long-Term Debt

The following is a summary of long-term debt transactions of the City's proprietary fund for the year ended June 30, 2005:

Debts payable at July 1, 2004	\$ 1,762,920
Debt additions	79,416
Payments of principal	<u>(34,600)</u>
Debts payable at June 30, 2005	\$ <u>1,807,736</u>

Bonds payable are solely in the Water and Sewer Fund at June 30, 2005 and are comprised of the following individual issues:

\$670,000 General Obligation Water Bonds, Series 1997A, issued March 1, 1997. Due in annual installments ranging from \$25,000 to \$55,000 until January 1, 2009, plus interest ranging from 4.25% to 5.70%. Final balloon payment of \$360,000 due January 1, 2017 from a sinking fund. See sinking fund requirements described later in this note. \$ 485,000

\$328,000 General Obligation Water Bonds, Series 1997B, issued July 14, 1997. Due in 5 equal, annual payments of \$65,600 beginning January 1, 2018. Interest accrues at 1.9% per annum and is payable in years 2018 to 2022. 328,000

\$391,000 Water and Sewer Revenue Bonds, Series 2001, issued July 19, 2001. Due in 38 annual payments of approximately \$10,500 beginning February 1, 2004. Interest accrues at 0% per annum. Final balloon payment of \$26,200 due February 1, 2041. 361,720

CITY OF MILLVILLE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 8 - Long-Term Debt (continued)

\$553,600 grant, issued July 19, 2001. Grant repayment is contingent upon when Millville City receives financing for a centralized sewer system. Management has determined that it is probable that the city will receive financing for a centralized sewer system at some point in the future. 553,600

\$79,416 Nibley City loan, issued January 1, 2005.
 Due in ten annual installments of \$7,942 beginning October 1, 2005. Interest accrues at 0% per annum. 79,416

Total bonds payable \$ 1,807,736

The City was notified by Nibley City during fiscal year 2004 that overruns occurred in the construction of a sewer main. Nibley City claimed that the City's portion of the cost overrun was approximately \$92,000. During fiscal year 2005, the City entered into an agreement to pay approximately \$12,000 by December 31, 2004, and \$7,942 thereafter each year for ten years.

The annual requirements to amortize all proprietary long-term debt outstanding as of June 30, 2005 were as follows:

<u>Years ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 47,542	35,335
2007	47,541	33,838
2008	47,541	32,313
2009	52,541	30,619
2010	52,541	28,699
2011-2015	307,710	108,414
2016-2020	353,492	24,205
2021-2025	175,508	-
2026-2030	48,000	-
2031-2035	48,000	-
2036-2040	48,000	-
2041	25,720	-
Contingent	<u>553,600</u>	<u>-</u>
Total	\$ <u>1,807,736</u>	<u>293,423</u>

The \$670,000 General Obligation bond covenants require a sinking fund to be established in years 2010 to 2017 with payment requirements ranging from \$35,000 to \$55,000. The debt service requirements detailed above are based upon the sinking fund payments.

CITY OF MILLVILLE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 8 - Long-Term Debt (continued)

Governmental Activities Long-Term Debt

During fiscal year 2005, the City incurred \$37,633 in interest expense related to business-type activities long-term debt. Of this amount \$30,528 was paid in cash and \$7,105 was capitalized in business-type activities net assets.

During fiscal year 2005, the City paid off the \$34,000 Waste Water Planning Loan it owed to the State of Utah Water Quality Planning Board.

Note 9 - Restricted Net Assets/Reserved Fund Equity

Restricted net assets and reserved fund balances represent monies required to be maintained to satisfy third party agreements or legal requirements. The following schedule details restricted net assets and reserved equity balances at June 30, 2005:

Governmental Activities:

General Fund:

Class C roads	\$ 224,187
Park impact fees	<u>87,773</u>
Total restricted net assets/reserved fund balance	\$ <u>311,960</u>

Business Activities:

Water Fund:

Revenue bond reserves	\$ <u>19,200</u>
Total restricted net assets	\$ <u>19,200</u>

The City assesses impact fees for parks and water improvements as allowed by State law. Impact fees represent fees assessed by the City for future capital improvements. These fees are not intended to recover impact costs for growth in areas not assessed by the City.

In accordance with the terms of the 2001 Water and Sewer Revenue Bonds, the City has reserved a portion of retained earnings to satisfy all reserves required by the bonds' covenants.

CITY OF MILLVILLE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 10 - Retirement Plans

Defined Benefit Pension Plan

The City contributes to the Local Governmental Noncontributory Retirement System which is a multiple employer, cost sharing defined benefit pension plan administered by the Utah Retirement Systems. Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor.

The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory Retirement System and Local Governmental Noncontributory Retirement System. A copy of this report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

During fiscal years 2005, 2004, and 2003, the City was required to contribute 11.09%, 9.62%, and 8.69%, of their annual covered salary, respectively, to the Local Governmental Noncontributory Retirement System. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

Contributions to the Local Governmental Noncontributory Retirement Systems for the year ending June 30, 2005, 2004 and 2003 were as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Salary subject to retirement contributions	\$ 80,926	79,932	76,308
Employer contributions	8,975	7,689	6,631

All contributions by the City were paid by the due dates or within 30 days thereafter and were equal to the required contributions for each year.

The Utah State Retirement Board of the Utah Retirement Systems provides the City with the necessary retirement disclosures for their report. The Retirement Systems have implemented the accounting and reporting requirements of Governmental Accounting Standards Board (GASB) Statement No. 27 "Accounting for Pensions by State and Local Governmental Employers".

CITY OF MILLVILLE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 10 - Retirement Plans (continued)

Defined Contribution Plan

The City maintains a qualified cash or deferred compensation plan under section 401(k) of the Internal Revenue Code. Under the plan, eligible employees may elect to defer a portion of their salary, subject to Internal Revenue Service limits. For fiscal years 2005, 2004, and 2003, the City contributed \$11,322 each year to the plan on behalf of City employees.

Note 11 - Deferred Compensation Plan

The City offers employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits all eligible employees to defer a portion of their salary until future years. The City's involvement is limited to withholding the amounts elected by employees and remitting those amounts to the Utah Retirement Systems.

Note 12 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City participates in the Utah Local Government Insurance Trust, a public entity risk pool, to manage its risk of loss. The City pays an annual premium to the trust for its general insurance coverage. The Trust was created to be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of two million dollars for each insured event. There have been no claim settlements which exceeded the City's insurance coverage for the past three years.

Note 13 - Intangible Assets

The City has entered into an agreement with Nibley City to install and maintain a sewer main and pump station. The agreement calls for both cities to bear installation and maintenance costs evenly unless some other basis for dividing costs is subsequently agreed to. During fiscal year 2004, construction on the project was completed. Nibley City owns the sewer main and pump station and the City owns the right to use (intangible asset) these facilities as stipulated in an agreement between the City and Nibley City. The City considers the right to use the common sewer facilities to be an intangible asset with an indefinite life. The intangible asset is reviewed for impairment annually.

CITY OF MILLVILLE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 14 - Commitments

The City is responsible to participate in the maintenance and operating costs and any capital upgrades on common sewer main and pump station improvements with Nibley City. The City's perpetual right to access the common sewer improvements is contingent upon this participation.

Required Supplementary Information

CITY OF MILLVILLE
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
For The Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Taxes	\$ 186,304	202,200	240,763	38,563
Licenses and permits	11,400	13,250	14,122	872
Intergovernmental	84,500	134,050	112,030	(22,020)
Charges for services	107,050	132,400	134,873	2,473
Fines and forfeitures	4,100	4,100	4,047	(53)
Miscellaneous revenues	4,000	28,000	31,720	3,720
Total revenues	397,354	514,000	537,555	23,555
Expenditures:				
General government	106,625	104,125	82,652	21,473
Public safety	50,870	55,470	55,224	246
Streets and public improvements	174,500	251,000	198,572	52,428
Parks and recreation	72,750	90,250	84,408	5,842
Total expenditures	404,745	500,845	420,856	79,989
Excess (deficiency) of revenues over expenditures	(7,391)	13,155	116,699	(103,544)
Other financing sources (uses):				
Transfer in from water and sewer fund	34,000	34,000	34,000	-
Transfer out to capital projects fund	-	(60,000)	(60,000)	-
Total other financing sources (uses)	34,000	(26,000)	(26,000)	-
Net change in fund balance	\$ 26,609	(12,845)	90,699	103,544
Fund balance - beginning of year			378,194	
Fund balance - end of year	\$		468,893	

CITY OF MILLVILLE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY REPORTING
June 30, 2005

Budget Presentation

A Budgetary Comparison Schedule is presented for the General Fund and each major governmental fund. Budgets for governmental funds are adopted on a GAAP basis.

Annual appropriated budgets are adopted for all governmental and business-type funds. All annual appropriations lapse at fiscal year end. Each fund adopts a "balanced budget" in accordance with State law. As allowed by State law, the City Council may authorize increases to or uses of unreserved fund balances. In the budget presentations, authorized increases to fund balance are shown as positive changes in fund balance and authorized decreases are shown as negative changes in fund balance.

Budget Adoption and Monitoring

On or before the first scheduled council meeting in May, all agencies of the City submit requests for appropriation to the City's financial officers so that a budget may be prepared. The budget is prepared by fund, function, and activity and includes information on the past year, current year estimates, and requested appropriations for the next fiscal year.

The proposed budget is presented to the City Council for review at the first scheduled meeting in May. The City Council holds public hearings and may add to, subtract from, or change appropriations, but may not change the form of the budget. The City financial officer must, within the revenues and reserves, estimate any changes in the budget as available or revenue estimates may be changed by an affirmative vote of a majority of the City Council. Within 30 days of adoption, the final budget must be submitted to the State Auditor. If there is no increase to the certified tax rate, a final tax rate is adopted by June 22, and adoption of budgets is done similarly.

State statutes require that City officers shall not incur expenditures or encumbrances in excess of total appropriations for any department in the budget as adopted or subsequently amended.

Only the Council at a properly advertised public hearing can make increases in total fund appropriations. The final budget information presented reflects all approved amendments.

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Supplementary Information

CITY OF MILLVILLE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For The Year Ended June 30, 2005
(With Comparative Totals for Year Ended June 30, 2004)

	2005		Variance	2004
	Budget	Actual	Favorable (Unfavorable)	Actual
Revenues:				
Taxes:				
General property taxes	\$ 41,000	40,988	(12)	38,683
Fee in lieu of property taxes	10,000	9,961	(39)	10,038
Sales and use taxes	147,000	185,495	38,495	170,078
Franchise taxes	4,200	4,319	119	4,431
Total taxes	202,200	240,763	38,563	223,230
Licenses and permits:				
Business licenses and permits	1,050	1,080	30	1,023
Non-business licenses and permits	12,200	13,042	842	10,691
Total licenses and permits	13,250	14,122	872	11,714
Intergovernmental:				
Class "C" roads	52,000	55,946	3,946	68,957
RAPZ grant	50,000	51,690	1,690	-
Sidewalk grant	27,000	-	(27,000)	-
EMT grant	3,850	3,895	45	10,983
Liquor allotment	1,200	499	(701)	427
Total intergovernmental	134,050	112,030	(22,020)	80,367
Charges for services:				
Sanitation	75,000	75,954	954	67,422
Impact fees	46,000	46,000	-	33,500
Recreation	400	1,878	1,478	2,313
911 fees	11,000	11,041	41	10,470
Total charges for services	132,400	134,873	2,473	113,705
Fines and forfeitures	4,100	4,047	(53)	4,627
Miscellaneous revenues:				
Interest	8,000	7,806	(194)	4,836
Other	20,000	23,914	3,914	5,410
Total miscellaneous	28,000	31,720	3,720	10,246
Total revenues	514,000	537,555	23,555	443,889

(continued)

CITY OF MILLVILLE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For The Year Ended June 30, 2005
(With Comparative Totals for Year Ended June 30, 2004)

(continued)

	2005		Variance	2004
	Budget	Actual	Favorable (Unfavorable)	Actual
Expenditures:				
General government:				
Council and mayor	5,000	4,930	70	4,490
Recorder	13,500	11,785	1,715	9,861
Treasurer	4,000	3,757	243	3,288
Professional	10,500	7,660	2,840	12,074
Bonds and insurance	7,000	6,489	511	6,213
Planning and zoning	6,000	4,475	1,525	5,573
Building and grounds	9,200	6,102	3,098	6,802
City engineering	10,000	5,904	4,096	3,356
Library	-	-	-	1,000
Elections	-	-	-	989
Development coordinator	6,500	4,942	1,558	6,750
Non-departmental	32,425	26,608	5,817	22,246
Total general government	104,125	82,652	21,473	82,642
Public safety:				
Fire protection	10,200	9,431	769	8,680
Law enforcement	19,200	18,499	701	18,427
Animal control	5,300	4,621	679	3,591
EMT	7,000	9,250	(2,250)	16,556
Crossing guards	2,770	2,593	177	2,521
911 dispatch	11,000	10,830	170	11,143
Total public safety	55,470	55,224	246	60,918
Streets and public improvements:				
Streets and highways	73,000	38,359	34,641	34,872
Class C roads	21,500	20,480	1,020	-
Class C roads capital outlay	42,000	26,790	15,210	66,329
Sanitation	80,500	78,943	1,557	69,574
Waste water planning grant loan payoff	34,000	34,000	-	-
Total streets and improvements	251,000	198,572	52,428	170,775

(continued)

CITY OF MILLVILLE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For The Year Ended June 30, 2005
(With Comparative Totals for Year Ended June 30, 2004)

(continued)

	2005		Variance	2004
	Budget	Actual	Favorable (Unfavorable)	Actual
Parks and recreation:				
Park/recreation programs	37,750	32,718	5,032	32,232
Capital outlay	52,500	51,690	810	-
Total parks and recreation	90,250	84,408	5,842	32,232
Total expenditures	500,845	420,856	79,989	346,567
Excess of revenues over expenditures	13,155	116,699	103,544	97,322
Other financing sources (uses):				
Transfer in from water & sewer fund	34,000	34,000	-	-
Transfer out to the capital projects fund	(60,000)	(60,000)	-	-
Total other financing uses	(26,000)	(26,000)	-	-
Net change in fund balance	\$ (12,845)	90,699	103,544	97,322
Fund balance - beginning of year		378,194		280,872
Fund balance - end of year	\$	468,893		378,194

CITY OF MILLVILLE
CAPITAL PROJECTS FUND
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Miscellaneous revenues	\$ <u>1,200</u>	<u>2,800</u>	<u>2,946</u>	<u>146</u>
Total revenues	<u>1,200</u>	<u>2,800</u>	<u>2,946</u>	<u>146</u>
Expenditures:				
Capital outlay	<u>3,500</u>	<u>6,100</u>	<u>6,000</u>	<u>100</u>
Total expenditures	<u>3,500</u>	<u>6,100</u>	<u>6,000</u>	<u>100</u>
Excess (deficiency) of revenues over expenditures	<u>(2,300)</u>	<u>(3,300)</u>	<u>(3,054)</u>	<u>246</u>
Other financing sources:				
Transfers in	<u>-</u>	<u>60,000</u>	<u>60,000</u>	<u>-</u>
Total other financing sources	<u>-</u>	<u>60,000</u>	<u>60,000</u>	<u>-</u>
Net change in fund balance	\$ <u><u>(2,300)</u></u>	<u><u>56,700</u></u>	<u>56,946</u>	<u><u>246</u></u>
Fund balance - beginning of year			<u>118,544</u>	
Fund balance - end of year	\$		<u><u>175,490</u></u>	

CITY OF MILLVILLE
WATER AND SEWER FUND
STATEMENT OF REVENUES AND EXPENSES -
BUDGET AND ACTUAL
For The Year Ended June 30, 2005
(With Comparative Totals for Year Ended June 30, 2004)

	2005		Variance	
	Budget	Actual	Favorable (Unfavorable)	Actual 2004
Operating revenues:				
Services	\$ 140,000	169,211	29,211	170,240
Miscellaneous	12,900	13,683	783	14,360
Total operating revenues	152,900	182,894	29,994	184,600
Operating expenses:				
Salaries and benefits	77,000	72,552	4,448	65,278
Current expenses	80,900	66,784	14,116	66,722
Total operating expenses	157,900	139,336	18,564	132,000
Operating income	(5,000)	43,558	48,558	52,600
Non-operating income (expense):				
Impact fees	69,000	69,000	-	73,500
Fees in lieu of water shares	-	18,500	-	19,020
Interest income	8,800	9,059	259	3,516
Bond payments	(66,230)	(65,128)	1,102	(65,960)
Intangible asset expense	(12,500)	(12,386)	114	-
Total non-operating income (expense)	(930)	19,045	1,475	30,076
Other financing (uses):				
Transfers out	(34,000)	(34,000)	-	-
Total other financing (uses)	(34,000)	(34,000)	-	-
Net change in net assets - budget basis	\$ (39,930)	28,603	50,033	82,676
Adjustments from budget basis to GAAP basis:				
Developer contributions		73,925		-
Intangible asset expense		12,386		-
Principal payments		34,600		35,080
Bond interest expense		(7,105)		(6,973)
Depreciation and amortization		(50,311)		(46,548)
Net change in net assets - GAAP basis	\$	92,098		64,235

CITY OF MILLVILLE
SUPPLEMENTAL WATER, SEWER, AND INSURANCE
INFORMATION
June 30, 2005

Utility Users and Rates

The Millville City water and sewer fund serves both residential and commercial users. As of June 30, 2005 there were the following users:

Residential	463
Commercial	<u>3</u>
Total	<u>466</u>

Water and sewer rates:

The monthly rate charged by water line size is as follows:

3/4" - 1" (standard)	\$ 20.00 per month
1 1/2" Line	\$ 45.00 per month
2" Line	\$ 80.00 per month
4" Line	\$320.00 per month

In addition to the above monthly fees, a water usage charge of \$.60 per 1,000 gallons is assessed to each meter. Each connection is charged \$2.00 monthly for sewer main debt service. Customers are billed monthly.

Insurance and Bond Coverage

The City has insurance and bonding policies with effective limits as follows:

<u>Description</u>	<u>Issuer</u>	<u>Number</u>	<u>Policy Limits</u>	<u>Expiration date</u>
Insurance:				
Comprehensive general liability (no deductible)	Utah Local Govt. Trust	TGL-241	\$ 2,000,000	Continuous
Buildings and contents (\$1,000 deductible)	Utah Local Govt. Trust	PX809764	\$ 1,333,400	7/1/2006
Auto physical damage (\$250/\$500 deductible)	Utah Local Govt. Trust	12420	\$ 70,700	7/1/2006
Bonds:				
Treasurer	Western Surety Insurance Co.	69658601	\$ 40,000	2/12/2006
Fidelity Bond	Old Republic	1072515	\$ 25,000	10/19/2005

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CITY OF MILLVILLE, UTAH
GOVERNMENTAL AUDIT REPORT

June 30, 2005



Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

To the Honorable Mayor and City Council
City of Millville
Millville, Utah

We have audited the financial statements of the governmental activities, the business type activities, and each major fund of the City of Millville, Utah (the City), as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 29, 2005. We conducted our audit in accordance with generally accepted auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the City in a separate letter dated September 29, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management in a separate letter dated September 29, 2005.

This report is intended solely for the information and use of City management personnel, the City Council and State agencies and is not intended to be and should not be used by anyone other than these specified parties.



JONES SIMKINS, P.C.
September 29, 2005

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CITY OF MILLVILLE
STATE COMPLIANCE REPORT

June 30, 2005



Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH STATE LEGAL COMPLIANCE REQUIREMENTS**

To the Honorable Mayor and City Council
City of Millville
Millville, Utah

We have audited the financial statements of the governmental activities, the business type activities, and each major fund of the City of Millville, Utah (the City), as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements, and have issued our report thereon September 29, 2005. As part of our audit, we have audited the City's compliance with the requirements governing types of services allowed or not allowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the year ended June 30, 2005. The City received the following major state assistance programs from the State of Utah:

Class C Road Funds (Department of Transportation)
Liquor Law Enforcement Funds (Tax Commission)

The City also received the following nonmajor grants which are not required to be audited for specific compliance requirements: (However, these programs were subject to testwork as part of the audit of the City's financial statements).

EMT Grant (Department of Health)

Our audit also included testwork on the City's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide including:

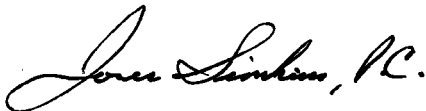
- Public Debt
- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Truth in Taxation and Property Tax Limitations
- Other Compliance Requirements
- Impact Fees and Other Development Fees

The City's management is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with respect to the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which have been reported to management in a separate letter dated September 29, 2005. We considered these instances of noncompliance when forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the City complied in all material respects with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility, matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2005.



JONES SIMKINS, P.C.
September 29, 2005



Certified Public Accountants

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To the Mayor and City Council
City of Millville
Millville, Utah

We have audited the financial statements of the City of Millville (the City) for the year ended June 30, 2005, and have issued our report thereon dated September 29, 2005.

Communications Required Under Professional Standards

Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards, Government Auditing Standards.

As stated in our engagement letter dated July 1, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control of the City. Such considerations were solely for the purpose of determining our audit procedures and to report on the internal control in accordance with Government Auditing Standards and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies and Audit Adjustments

Management has the responsibility for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application.

For the purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures.

We assisted the City in making year-end accrual entries and posting budget basis to generally accepted accounting principles (GAAP) basis adjustments. In addition, several entries were necessary to convert from the fund basis to the entity-wide basis of financial reporting based on information that management provided.

Internal Control

In planning and performing our audit of the financial statements of the City for the year ended June 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control. Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no conditions during our review of the internal control that we believe are material weaknesses. However, our audit disclosed the following conditions that although not considered by us to be material weaknesses, are either weaknesses in internal control for which corrective action might be taken or are immaterial instances of noncompliance.

General Recommendations

1. A follow-up on the recommendations in this letter should be made by the Council and reflected in the Council's minutes.

Management Response:

The "General Recommendations" of the audit will be presented to the city council at the time the audit is presented. During the following council meeting a discussion on the recommendations will be held and appropriate response taken.

2. We noted that the City's monitoring and reporting of fixed assets significantly improved during the year. The new financial reporting model dramatically increased the responsibility of governments to account for and report fixed assets, including infrastructure. We recommend that the City continue to improve its policies and procedures for accumulating, summarizing and reporting fixed asset information.

Management Response:

The City's staff continues to recognize methods by which the monitoring and reporting of fixed assets can more efficiently be accomplished. As these methods are noted, procedures are implemented to streamline future efforts. This on-going review will continue as we strive for efficiency in this area.

3. The mayor or a council member should review the cash account reconciliations each month to determine if they are satisfactory. This review should be documented with a signature and date on the first page of each reconciliation.

Management Response:

The mayor will review and sign cash accounts reconciliation documentation each month as they are performed.

4. An off-site backup copy of the City's electronic data should be maintained and rotated regularly.

Management Response:

The City acknowledges this recommendation and will devise a plan and schedule to do so.

State Compliance

1. We noted that, based on the budgeted revenues of the City, the fidelity bond for the City Treasurer needs to be increased to comply with State laws and regulations. We recommend that the City increase the fidelity bond accordingly.

Management Response:

The fidelity bond for the city treasurer will be increased to \$60,000 during the next bonding cycle.

2. At June 30, 2005, the General Fund's unreserved fund balance was in excess of the maximum amount allowable under state law. We recommend that the City review its future needs and determine an appropriate strategy for maintaining the General Fund's unreserved fund balance within statutory limits.

Management Response:

Certain budgeted expenditures for fiscal year 2005 in the General Fund did not occur, resulting in this violation. The Council and management will monitor unreserved General Fund equity and designate it for General Fund projects or transfer excesses to the Capital Projects Fund as serves the needs of the City.

The prior year's recommendations that have been addressed by management or the Council have not been repeated.

We appreciate the cooperation and assistance from City personnel during our audit. Their help was very beneficial in the completion of this year's audit.

This report is intended solely for the use of the Mayor and City Council and should not be used for any other purposes. If questions arise concerning the above recommendations, please contact us and we will be happy to discuss them with you.



JONES SIMKINS, P.C.

September 29, 2005